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Integrate gram and Telegram Messenger? Us? Where did you get THAT idea? --Pavel Durov, CEO, Telegram (via TechCrunch CC-BY-2.0)



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After court 'win' Telegram claims will abandon TON blockchain, gram token

A small win in court is overshadowed by messaging service turned blockchain developer Telegram's announcement that it won't maintain its own TON blockchain. But is it all hot air?

By Leo Jakobson / January 8, 2020

Telegram's victory in court over the Securities and Exchange Commission Monday wasn't much of a victory. In fact, it could prove to be the undoing of its planned Telegram Open Network blockchain platform and gram cryptocurrency.

The SEC sued Telegram in October, alleging the messaging service's \$1.7 billion token offering had broken federal securities laws. Telegram is fighting the suit, claiming its grams are utility tokens, outside the agency's purview. But a new announcement that it won't integrate gram payments into its Telegram Messenger platform signals a recognition that its case is faltering.

Federal Judge Kevin Castel of the Southern District of New York gave the company a short-term win over the SEC by denying the agency's request to see all of Telegram's bank statements before a scheduled

deposition of its CEO and founder, Pavel Durov, in Dubai on Jan. 7-8.

That saved the company from an impossible situation, as EU privacy requirements mean it could not legally turn over documents relating to European Union citizens without redacting personal information.

Judge Castel accounted for that, but he did order the company to turn the documents over in the not-too-distant future. He ordered Telegram to set forth a “proposed schedule for a review of the requested bank records to ensure that production of such records complies with foreign data privacy laws,” by Thursday.



Telegram Messenger is flying away from its own blockchain project

The investigation widens

The SEC’s document demands and the judge’s acquiescence to them mark an aggressive expansion of the agency’s investigation. Having accused Telegram of making excuses, stalling, and generally trying to avoid handing over the documents, the SEC has made clear that it is no longer just trying to stop the gram sale.

Once the SEC gets its hands on those bank records, that will mark the beginning of an aggressive expansion of its investigation. Instead of just stopping the sale of TON’s gram tokens to the general public, the SEC is now calling Telegram’s 2018 initial coin offering to a small number of wealthy investors illegal, and is looking for evidence of fraud.

As a result, Telegram has come up with a new plan to launch TON while making sure the gram tokens it pre-sold in 2018 initial coin offering are not securities. Those tokens are the payment mechanism of TON.

In a blog post on Monday, the company announced that strategy change, which undercuts its biggest strength. It said it no longer planned to build its Telegram cryptocurrency wallet into the Telegram Messenger service, which has 200 million monthly active users.

“Telegram’s Ton Wallet application is expected to be made available solely on a stand-alone basis and will not be integrated with the Telegram Messenger service,” Telegram wrote.



Will TON’s gram token ever launch?

Telegram abandons TON

That is a “Massive blow to \$TON investors,” Spencer Noon, founder of DTC Capital, tweeted. “90+% of the investment thesis for TON was having Telegram as a distribution channel.”

Those 200 million Telegram users would have given TON a huge captive market. Users immediately would have been able to use grams for payments. That in turn would have given the company a huge lead over other blockchain-based payment platforms.

When Telegram pre-sold 2.9 billion gram tokens worth \$1.7 billion to private investors in a Simple Agreement for Future Tokens—or SAFT—sale that ran from January through March 2018, that customer acquisition lead was the key selling point to the profit-seeking buyers.

That advantage is now gone—maybe.

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In the blog post, Telegram highlighted its legal disclaimer that “Telegram and its affiliates have not made any promises or commitments to develop any applications or features for the TON Blockchain or otherwise contribute in any way to the TON Blockchain platform after it launches. In fact, it said, “It is possible that Telegram may never do so.”

Nor will Telegram maintain TON, it said. Instead the company’s “goal and hope” is that a decentralized community of third-party developers will maintain TON through a foundation.

That brought a snort of derision from Elizabeth Stark, co-founder and CEO of Lightning Labs.

“Because you know, decentralized third party protocol developers just grow on trees,” she tweeted. The sentence was followed by a laughing-to-tears emoji.

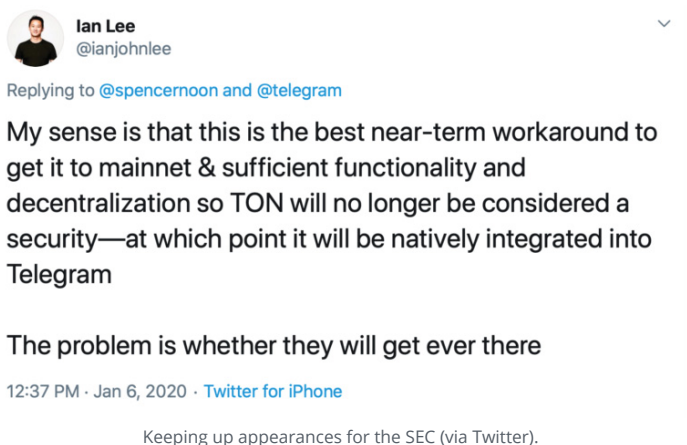
“Once it launches, Telegram won’t be obligated to maintain the platform or create any apps for it,” Telegram wrote in its blog post. “It’s possible we never will.”

As for its TON Wallet, Telegram said it “may” integrate it in the future.

Just a tactic

Telegram seems “to be actively taking steps to separate the ‘gram’ tokens from the only thing that really makes them interesting in the first place: the integration into the 200 million+ user messaging platform itself,” wrote Ryan Selkis, founder of cryptocurrency research firm Messari, in an analysis Tuesday.

At issue is the Howey test, four questions that determine whether or not something offered for sale is a security. Two of those factors are whether investors have the “expectation of profits” based on the ongoing “efforts of others.” Normally, those efforts come from the offering’s sponsor.



Keeping up appearances for the SEC (via Twitter).

Telegram’s argument has been that because gram will be used to make payments and transfer money on the TON blockchain, it is not a cryptocurrency bought as an investment but a utility token, outside the purview of the SEC. The SEC disagree, vigorously.

Which is why the announcement is likely a tactic in Telegram’s fight with the SEC.

“Distancing the Ton Wallet from the Telegram app... makes sense if you’re trying not to trip the ‘efforts of others’ prong of the Howey test, but not if you’re actually trying to distribute a useful token to your target users,” Selkis said.

Ian Lee, managing director of Ideo CoLab Ventures, believes the announcement is a Howey test “workaround” by Telegram.

The goal, he tweeted, is to make TON more decentralized. Once the mainnet is up and running and other developers are creating distributed apps on the platform, grams will be decentralized enough that they “will no longer be considered a security,” he said.

At that point, Lee predicted, the TON Wallet “will be natively integrated into Telegram.”

He added: “The problem is whether they will [ever get] there.”

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LEO JAKOBSON

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Leo Jakobson, Modern Consensus editor-in-chief, is a New York-based journalist who has traveled the world writing about incentive travel. He has also covered consumer and employee engagement, small business, the East Coast side of the Internet boom and bust, and New York City crime, nightlife, and politics. Disclosure: Jakobson owns no cryptocurrencies.

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